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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

10K

J92.2235

FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission File Number 0-19594

INSURANCE AUTO AUCTIONS, INC.
(Exact name of registrant as specified in its charter)

California	95-3790111
(State or other jurisdiction of incorporation or organization)	IRS Employer Identification

7245 Laurel Canyon Boulevard, North Hollywood, California	91605
(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code (818) 764-3400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X. No _____.

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date.

L3Q

Class	Outstanding at March 31, 1992
Common Stock, $.001 par value	6,120,280

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INSURANCE AUTO AUCTIONS, INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 1991	March 31, 1992 (Unaudited)
Current Assets:		
Cash and cash equivalents	$ 5,862,700	$ 2,893,000
Short-term investments	4,787,200	4,794,000
Accounts receivable, net	1,659,400	1,988,500
Inventories	2,298,600	2,590,200
Other current assets	1,234,500	574,700
Total current assets	15,842,400	12,840,400
Property and equipment, at cost		
Land	202,200	202,200
Furniture and fixtures	112,100	126,600
Machinery and equipment	326,800	954,700
Leasehold improvements	1,225,800	1,253,300
	2,366,900	2,536,800
Less accumulated depreciation and amortization	1,150,300	1,229,500
Net property and equipment	1,216,600	1,307,300
Note receivable from officer/shareholder	1,200,000	1,200,000
Other assets	341,600	4,416,200
	$ 18,600,600	$ 19,763,900

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current installments of long-term debt	$ 23,200	$ 480,800
Accounts payable	2,855,000	2,754,000
Accrued liabilities	620,300	753,800
Bonus payable	1,012,600	14,200
Customer deposits	399,800	482,900
Total current liabilities	4,920,900	4,485,700
Long-term debt, excluding current installments	—	916,700
Total liabilities	4,920,900	5,402,400
Shareholders' equity:		
Preferred stock, par value of $.001 per share. Authorized 5,000,000 shares; none issued	—	—
Common stock, par value $.001 per share. Authorized 20,000,000 shares; issued and outstanding 6,120,280 shares	6,100	6,100
Additional paid-in capital	26,996,600	26,996,600
Accumulated deficit	(13,323,000)	(12,641,200)
Net shareholders' equity	13,679,700	14,361,500
	$ 18,600,600	$ 19,763,900

See accompanying notes to condensed consolidated financial statements.

INSURANCE AUTO AUCTIONS, INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Month Period Ended March 31,	
	1991	1992
Net sales	$9,697,800	$12,967,800
Cost of sales	7,833,900	10,469,700
Gross profit	1,863,900	2,498,100
Operating expenses:		
Direct	1,310,500	1,626,700
Amortization of certain acquisition costs	256,400	15,700
Earnings from operations	297,000	855,700
Interest expense	289,300	19,100
Interest (income)	(44,100)	(137,300)
Earnings before income taxes	51,800	973,900
Income taxes	21,000	292,100
Net earnings	$ 30,800	$ 681,800
Net earnings (loss) per common and common equivalent shares	$ (0.06)	$ 0.11
Weighted average common and common equivalent shares outstanding	3,750,000	6,120,280

See accompanying notes to condensed consolidated financial statements.

INSURANCE AUTO AUCTIONS, INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Month Period Ended March 31,	
	1991	1992
Cash flows from operating activities:		
Net earnings	$ 30,800	$ 681,800
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	111,800	79,200
Minority interest in net earnings of subsidiary	5,900	—
Change in assets and liabilities (net of effects of acquired company):		
(Increase) decrease in:		
Accounts receivable	(94,500)	244,100
Inventories	(97,100)	(114,100)
Other current assets	(84,800)	434,300
Other assets	387,000	166,200
Increase (decrease) in:		
Accounts payable	(646,400)	(142,000)
Accrued liabilities	59,200	123,500
Bonus payable	111,700	(998,400)
Customer deposits	32,500	83,100
Total adjustments	(214,700)	(124,100)
Net cash provided by (used in) operating activities	(183,900)	557,700
Cash flows from investing activities:		
Payment made in connection with acquired company	—	(4,750,000)
Capital expenditures	(370,000)	(144,900)
Short-term investments	—	(6,800)
Net cash used in investing activities	(370,000)	(4,901,700)
Cash flows from financing activities:		
Principal payments of notes payable to bank and long-term debt	(159,500)	(700)
Proceeds from issuance of long-term debt	—	1,375,000
Net cash provided by (used in) financing activities	(159,500)	1,374,300
Net decrease in cash	(713,400)	(2,969,700)
Cash and cash equivalents at beginning of period	3,045,700	5,862,700
Cash and cash equivalents at end of period	$2,332,300	$ 2,893,000

See accompanying notes to condensed consolidated financial statements.

INSURANCE AUTO AUCTIONS, INC.
AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

The unaudited operating results have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation for the periods. The results of operations for interim periods are not necessarily indicative of results to be achieved for full fiscal years.

As contemplated by the Securities and Exchange Commission under Rule 10-01 of Regulation S-X, the accompanying consolidated financial statements and related notes have been condensed and do not contain certain information included in the Company's annual consolidated financial statements and notes thereto.

2. Acquisition of M & M Auto Storage Pool, Inc.

In January 1992, the Company, through its wholly owned subsidiary MASP Acquisition Corp., acquired certain net assets, as defined, including fixed assets, accounts receivable, goodwill and inventory of M & M Auto Storage Pool, Inc. (M & M) and acquired a ten year option to purchase 35 acres of land on which M & M is located. The consideration consisted of a combination of $2,975,000 in cash and a $1,375,000 promissory note, subject to adjustment. This acquisition is accounted for as a purchase, and the results of M & M's operations are included in the Company's consolidated financial statements subsequent to the date of acquisition for financial reporting purposes. Pro forma results of operations for the periods ended March 31, 1992 and March 31, 1991, assuming the acquisition occurred at the beginning of the respective period, would not materially differ from the results of operations presented herein.

3. Income Taxes

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, which adopts significant changes that apply to all companies that are subject to income taxes. The Company adopted the provisions of SFAS No. 109 effective January 1, 1992. The application of SFAS No. 109 has an immaterial effect on the Company's consolidated financial statements for periods prior to January 1, 1992.

One of the provisions of SFAS No. 109 enables companies to record deferred tax assets for the benefit to be derived from the utilization of net operating loss carryforwards. Accordingly, the Company recognized a deferred tax asset of $1,428,000 and related valuation allowance of $1,428,000 as of January 1, 1992. Since the Company recognized taxable income during the three-month period ended March 31, 1992, the valuation allowance was reduced by approximately $100,000.

Income taxes for the three-month period ended March 31, 1992 were computed using the effective tax rate estimated to be applicable for the full fiscal year, which is subject to ongoing review and evaluation by management.

4. Earnings (Loss) Per Share

Net earnings (loss) per share is based on the weighted average number of shares of common and common stock equivalents outstanding. Net earnings in 1991 for purposes of calculating net earnings (loss) per share were reduced by the accretion of common stock purchase warrants. These warrants were exercised in 1991 and are no longer outstanding.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Three Months Ended March 31, 1992 Compared to Three Months Ended March 31, 1991

Net sales of Insurance Auto Auctions, Inc. (the "Company") increased from $9,698,000 for the three-month period ended March 31, 1991 to $12,968,000 for the comparable three-month period in 1992, a 33.7% increase. Sales were higher due to the inclusion of sales from the San Diego branch, which opened following the first quarter of 1991, increased unit volume and higher selling prices from branches that were open throughout 1991 and the acquisition of M & M Auto Storage Pool, Inc., an Arizona corporation, during the first quarter of 1992.

Gross profit margin remained essentially unchanged from 19.2% for the three-month period ended March 31, 1991 to 19.3% for the comparable three-month period in 1992. Favorable trends in gross profit margins due to an increased proportion of consignment sales were offset by lower than average gross profit margins at the San Diego branch that resulted from low capacity utilization.

Direct operating expenses increased from $1,311,000 in the three-month period ended March 31, 1991 to $1,626,000 for the comparable three-month period in 1992, a 24% increase. The increase in direct operating expenses was a result of costs associated with M & M and the increased accounting, legal and other costs associated with being a public company. In addition, the Company has made additional investments in management personnel and related infrastructure to support future growth. Direct operating expenses as a percentage of net sales decreased to 12.6% for the three-month period ended March 31, 1992 from 13.5% in the comparable three-month period in 1991.

The decrease in other operating expenses from $256,000 in the three-month period ended March 31, 1991 to $16,000 for the comparable three-month period in 1992 is attributable to the termination following the first quarter of 1991 of a 1990 employment agreement entered into with the Company's founder and the concurrent write-off of the covenant not-to-compete contained in such agreement.

Net interest expense decreased from $289,000 for the three-month period ended March 31, 1991 to $19,000 for the comparable three-month period ended March 31, 1992, while interest income increased from $44,000 for the three-month period ended March 31, 1991 to $137,000 for the comparable three-month period in 1992. The changes in interest income and interest expense were attributable to the Company's initial public offering consummated in November 1991, a portion of the net proceeds of which were used to repay indebtedness, with the remainder being invested in interest-bearing securities.

Income taxes were computed using the effective tax rate estimated to be applicable for the full fiscal year, which is subject to ongoing review and evaluation by management. Effective January 1, 1992, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes." The effect was to reduce income tax expense by approximately $100,000 for the three-month period ended March 31, 1992.

Net earnings increased from $31,000 for the three-month period ended March 31, 1991 to $682,000 for the comparable three-month period in 1992.

Liquidity and Capital Resources

At March 31, 1992, the Company had working capital of $8,355,000, including $7,687,000 of cash, cash equivalents and short-term investments. The decrease in working capital from December 31, 1991 to March 31, 1992 was principally related to funds used in connection with the acquisition of M & M in January 1992 and the $1,000,000 bonus paid to Mr. Scott.

On January 30, 1992, the Company's wholly owned subsidiary, MASP Acquisition Corp., acquired substantially all of the assets and certain liabilities of M & M Auto Storage Pool, Inc., an Arizona corporation, and a 10-year option to purchase 35 acres of land on which M & M is located. The consideration consisted of a combination of $2,975,000 in cash and a $1,375,000 three-year promissory note guaranteed by the Company.

secured by substantially all of M & M's assets and bearing interest at Bank of America N.T. & S.A.'s prime rate. At March 31, 1992, the Company's only other indebtedness consisted of a mortgage note payable in the amount of $23,000.

The Company does not require substantial amounts of working capital. Inventory and accounts receivable are largely financed with accounts payable. The Company's payment policy requires cashier's check, cash or, in the case of high volume customers, pre-approved checks. These policies, combined with the Company's ability to process, market, sell and receive payments for its vehicles quickly, allow the Company to receive cash from sales at approximately the same time it pays suppliers under its purchase agreements.

Capital expenditures were approximately $145,000 during the three months ended March 31, 1992. The principal requirements for the Company's capital expenditures have been opening and expanding facilities and acquiring tow trucks. The Company currently leases all of its facilities and other properties, except for a portion of the storage facility in Colton, California, and intends to continue this policy in the foreseeable future.

The Company's results of operations have not been materially affected by inflation and are not subject to significant seasonal fluctuations.

Part II

Item 1 Legal Proceedings. None.

Item 2 Changes in Securities. None.

Item 3 Defaults upon Senior Securities. None.

Item 4 Submission of Matters to a Vote of Security Holders. None.

Item 5 Other Information. None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Exhibit 11.1 Statement of computation of net earnings (loss) per common and common equivalent shares

(b) Report on Form 8-K.

On January 31, 1992, the Company filed a current report on Form 8-K reporting under Item 2 the Company's purchase on January 30, 1992 through its wholly-owned subsidiary MASP Acquisition Corp., a Delaware corporation, from M & M Auto Storage Pool, Inc., an Arizona corporation and its shareholders (collectively, "M & M"), M & M's auto salvage pool operations pursuant to an asset purchase transaction and, under Item 7 exhibits relating to the purchase.

On April 14, 1992, the Company filed Form 8 Amendment Number 1 to the Current Report on Form 8-K filed January 31, 1992 reporting under Item 7 the following financial statements and proforma financial information:

(1) Financial Statements of Business Acquired, M & M Auto Storage Pool, Inc., an Arizona corporation

(i) Report of Independent Public Accountants

(ii) Statements of Assets and Liabilities at June 30, 1991 and 1990

(iii) Statements of Operations for the years ended June 30, 1991 and 1990

(iv) Statements of Cash Flows for the years ended June 30, 1991 and 1990

(v) Notes to Financial Statements for the years ended June 30, 1991 and 1990

(2) Pro forma Financial Information, Insurance Auto Auctions, Inc.

(i) Pro forma Consolidated Balance Sheet as of December 31, 1991 (unaudited)

(ii) Pro forma Consolidated Statement of Operations for the year ended December 31, 1991(unaudited)

(iii) Notes to Pro forma Consolidated Financial Statements (unaudited)

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INSURANCE AUTO AUCTIONS, INC.

Date: May 13, 1992

William W. Liebeck
Executive Vice President

(Duly Authorized Officer)

Date: May 13, 1992

Steven M. Johnson
Vice President, Finance and
Chief Financial Officer

(Principal Financial and
Accounting Officer)

Exhibit 11.1

INSURANCE AUTO AUCTIONS, INC.
AND SUBSIDIARIES

STATEMENT OF COMPUTATION OF NET EARNINGS
PER COMMON AND COMMON EQUIVALENT SHARES
(Unaudited)

	Three Month Period Ended March 31,	
	1991	1992
Net earnings	$ 30,800	$ 681,800
Accretion of common stock purchase warrants issued	246,500	—
	$ (215,700)	$ 681,800
Weighted average common and common equivalent shares outstanding	3,750,000	6,120,280
Net earnings (loss) per share	$ (.06)	$ .11